

SEC Mail  
Mail Processing  
Section  
FEB 28 2008  
Washington, DC  
106

SECUI



MISSION

OMB APPROVAL

OMB Number: 3235-0123  
Expires: February 28, 2010  
Estimated average burden  
hours per response ... 12.00

SEC FILE NUMBER

8-53558

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/07 AND ENDING 12/31/07  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Paragon Advising Group, L.P.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

3200 Southwest Freeway, Suite 2350

Houston Texas 77027  
(City) (State) (Zip Code)

OFFICIAL USE ONLY

FIRM ID. NO.

PROCESSED

MAR 19 2008

THOMSON  
FINANCIAL

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Mr. Michael Chevalier-White 713-599-0111

(Area Code - Telephone No.)

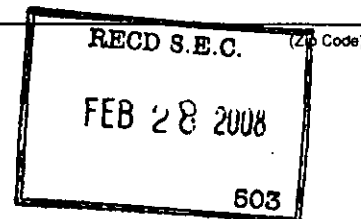
B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
UHY LLP

12 Greenway Plaza, Suite 1202 Houston Texas 77046  
(Address) (City) (State) (Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.



FOR OFFICIAL USE ONLY

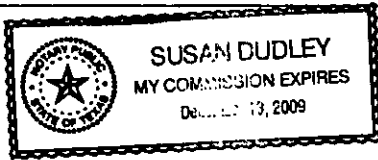
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

## OATH OR AFFIRMATION

I, Michael Chevalier-White, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Paragon Advising Group, L.P., as of December 31, 2007, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_



Susan Dudley  
Notary Public

Michael Chevalier-White  
Signature  
CFO, Paragon Advising Partners, L.L.C.  
General Partner of Paragon Advising Group, L.P.  
Title

This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*F

PARAGON ADVISING GROUP, L.P.  
FINANCIAL STATEMENTS  
DECEMBER 31, 2007

C O N T E N T S

|   | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report .....  | 2           |
| Statement of Financial Condition .....                                    | 3           |
| Statement of Income .....   | 4           |
| Statement of Changes in Partners' Capital .....                           | 5           |
| Statement of Cash Flows .....   | 6           |
| Notes to Financial Statements .....                                       | 7-8         |
| <u>Supplemental Information:</u>  |             |
| Schedule I - Computation of Net Capital Under SEC Rule 15c3-1 .....       | 9           |
| Schedule II - Information Related to Exemption from SEC Rule 15c3-3 ..... | 10          |

12 Greenway Plaza, Suite 1202  
Houston, Texas 77046-1289

Phone 713-561-6500  
Fax 713-968-7128  
Web [www.uhy-us.com](http://www.uhy-us.com)

Independent Auditors' Report

The Partners  
Paragon Advising Group, L.P.  
Houston, Texas

We have audited the accompanying statement of financial condition of Paragon Advising Group, L.P. (the "Partnership") as of December 31, 2007, and the related statements of income, changes in partners' capital and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paragon Advising Group, L.P. as of December 31, 2007, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information included in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**UHY LLP**

Houston, Texas  
February 11, 2008

PARAGON ADVISING GROUP, L.P.  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2007

ASSETS

|                     |            |
|---------------------|------------|
| Cash                | \$ 98,152  |
| Accounts receivable | 75,175     |
| Prepaid expenses    | 3,652      |
| Other assets        | <u>229</u> |

|              |                   |
|--------------|-------------------|
| TOTAL ASSETS | <u>\$ 177,208</u> |
|--------------|-------------------|

LIABILITIES AND PARTNERS' CAPITAL

LIABILITIES

|                  |           |
|------------------|-----------|
| Accrued expenses | \$ 31,420 |
|------------------|-----------|

PARTNERS' CAPITAL

|                         |                |
|-------------------------|----------------|
| General partner         | 972            |
| Limited partners        | <u>144,816</u> |
| TOTAL PARTNERS' CAPITAL | <u>145,788</u> |

|   |                   |
|---|-------------------|
| TOTAL LIABILITIES AND PARTNERS' CAPITAL | <u>\$ 177,208</u> |
|---|-------------------|

See notes to financial statements.

**PARAGON ADVISING GROUP, L.P.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2007**

**PARAGON ADVISING GROUP, L.P.**

**INDEPENDENT AUDITORS' SUPPLEMENTARY  
REPORT ON INTERNAL CONTROL**

**DECEMBER 31, 2007**

Independent Auditors' Report on Internal Accounting Control  
Required by SEC Rule 17a-5 of the  
Securities Exchange Act of 1934

The Partners  
Paragon Advising Group, L.P.

In planning and performing our audit of the financial statements and supplementary schedules of Paragon Advising Group, L.P. (the "Partnership") for the year ended December 31, 2007, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Partnership including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Partnership does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Partnership in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Partnership is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Partnership has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.



Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Partnership's practices and procedures were adequate at December 31, 2007, to meet the SEC's objectives.

This report is intended solely for the information and use of the Partners, management, the SEC, the Financial Industry Regulatory Authority (formerly the National Association of Securities Dealers, Inc.) and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

UHY LLP

Houston, Texas  
February 11, 2008

END